

A number of provisions in the bill remove barriers to increased foreign investments, and we urge that they be adopted. They are elimination of the requirement that foreigners file a tax return for income above \$21,200; elimination of the risks that a foreigner may be treated as doing business in the United States if he gives power of attorney to a U.S. resident; application of capital gains taxation to a foreigner only if he is present in the United States for 183 days or more per year; and, finally, reduction of the estate tax rates on foreigners.

The committee should be alerted to the risk that some of the restrictive provisions of the bill could lead to large withdrawals of foreign funds from U.S. banks, thus hurting our balance-of-payments position. The committee should also be aware that a number of provisions in the bill may act as a deterrent to foreign investment in the United States, rather than providing a stimulus which is intended to help our balance of payments. Certain changes would avoid these dangers.

In the estate tax, the simplest and most effective step would be to eliminate the estate tax on foreigners completely. This would provide a much greater stimulus for foreign investment in the United States than a rate reduction, and it would help our balance of payments because many people feel that elimination of an estate tax would open up the vaults of Europe, and would produce a dramatic inflow of funds into the United States.

Second, if estates continue to be taxed, retain the situs rule on bonds. Under the present law, bonds issued by U.S. persons are only subject to the estate tax if located in the United States. Under H.R. 13103, all debt obligations of a U.S. person, U.S. Government, or State or local governments and owned by foreigners, will be subject to the estate tax no matter where their physical location.

Under the administration's voluntary program to reduce capital outflow, American companies are being urged to finance their overseas investments through local borrowing. During 1965 and in the first quarter of 1966, some \$600 million of such borrowings were financed through bond issues outside of this country. The proposed changes in the situs rule would jeopardize this program by making foreign investors reluctant to purchase these bonds, as well as others issued in the United States, if they will be subject to U.S. estate taxation.

Third, exclude from property consideration taxable customers' cash balances at brokerage houses awaiting investment or reinvestment. These balances are similar to deposits in banks and savings and loan associations and—for estate tax purposes—they should be treated in the same way.

Fourth, exempt permanently bank deposits of foreigners. In the area of the income tax, delete the provisions of the bill which, after 1971, would impose income tax on deposits of foreigners not doing business in the United States.

Fifth, reduce and consider discontinuing the withholding tax levied on interest and dividends paid to foreigners. As a minimum step, the committee should urge the administration to press for mutual reductions with other countries in the percentage withheld through treaty arrangements.

Sixth, eliminate the tax imposed on foreign pension trusts and similar institutional investors, such as charitable organizations, and at