

indirect effects of the Interest Equalization Tax, foreigners were net sellers of \$635 million of U.S. corporate stocks and bonds. Even before imposition of the Interest Equalization Tax, however, the outflow of U.S. funds for investment in foreign securities almost invariably exceeded the inflow of foreign funds for investment in U.S. securities. There is clearly a need, therefore, to take steps which will attract more foreign investment to the U.S.

In general, H.R. 13103 simplifies the present complicated and sometimes unenforceable tax law governing foreign individuals and corporations. This is accomplished in the bill by changing the existing law to:

- (1) Relieve foreigners of the need to file a return for income above \$21,200.
- (2) Eliminate the risk that a foreigner may be treated as doing business in the United States by giving a power of attorney to a United States resident.
- (3) Exempt a foreigner from capital gains taxation unless he is present in the United States for at least 183 days.

Although the Exchange applauds the bill in principle, we are impelled to point out serious reservations about a number of provisions which conflict with the bill's over-all objective—aiding our balance of payments position and stimulating foreign investment in the United States. The Committee should be alerted to the risks that some of the restrictive provisions of the bill could lead to large withdrawals of foreign funds from United States banks in favor of either of foreign branches of such United States banks or foreign banks. This could mean an outflow of dollars unfavorable to our balance of payments position.

The Exchange, therefore, suggests the following deletions, amendments and additions to H.R. 13103:

- (1) Eliminate the estate tax on nonresident aliens completely, rather than providing only a rate reduction.
- (2) If estates continue to be taxed, retain the situs rule on bonds.
- (3) Exclude brokerage customers' cash balances awaiting investment or reinvestment from property considered taxable for estate tax purposes.
- (4) Permanently exempt from the estate tax bank deposits of foreigners and also delete the provision which would make interest on deposits of foreigners not doing business in the U.S. subject to income tax after 1971.
- (5) Discontinue or reduce the withholding tax levied on interest and dividends paid to foreigners. As a minimum step, press for mutual reductions with other countries in the percentage withheld through treaty arrangements.
- (6) Eliminate or ease taxes imposed on foreign pension trusts and similar institutional investors.
- (7) Permit foreign bank branches in this country to treat income from investment portfolios of U.S. securities as "effectively connected" with a trade or business in the U.S.

The Exchange specifically endorses the language in Section 2 of the bill referring to "Trading in Securities and Commodities," as revised from the original Administration proposals. The revised language of H.R. 13103 clarifies the intent of the legislation and eliminates any risk of misinterpretation.

OBJECTIVES OF PENDING BILL

H.R. 13103, "The Foreign Investors Tax Act of 1966," accepts the basic philosophy and recommendations of the Presidential Task Force on the Balance of Payments, of which I was a member. The Task Force recommendations were originally embodied in H.R. 5916, submitted by the Administration to the Congress for consideration in 1965. In its statement on H.R. 5916, the Exchange noted that:

"Adoption of this legislation would do much to stimulate the long-term flow of foreign capital to the U.S., in part by removing archaic restrictions on the flows. The securities industry has long advocated removal of such restrictions. The Exchange applauds the fact that the proposed legislation will enhance the freedom of movement in the international flow of capital funds."

The legislation, appropriately cast, should aid our balance of payments problem. As the late President Kennedy observed in his last balance of payments message to the Congress, "Securities of U.S. private firms could be and should be one of our best selling exports." This proposed legislation, by removing some bothersome and complex restraints, should make the sale of American securities to foreign investors considerably easier.