

While the Exchange supports the basic philosophy of the bill, and the bill includes a number of desirable features, we do have serious reservations about several provisions which are not consistent with the bill's over-all objective—aiding our balance of payments and stimulating foreign investment in the United States. The Committee should be aware of the possibility that some of the bill's restrictive provisions could lead to large withdrawals of foreign funds from United States banks in favor 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. Therefore, if these provisions are not modified, the legislation might well produce unfavorable, rather than favorable, reactions in the financial markets of the world and on our balance of payments.

SUGGESTED REVISIONS

Although the unfavorable impact of the changes effected between the original bill (H.R. 5916) and its second version (H.R. 11297) has been softened in the current version, the legislation's basic purpose of stimulating foreign investment in the U.S. may well be blunted if further changes are not made.

The legislation as written can be materially strengthened in several ways, as discussed below, and moved closer to its objective, as outlined by the Balance of Payments Task Force, of removing existing deterrents to foreign investment. In addition, the effectiveness of a program to encourage foreign investment in U.S. securities may be enhanced by adoption of several measures not included in the tax bill.

Consequently, the Exchange suggests the following adjustments and additions:

I. ELIMINATION OF ESTATE TAX ON NONRESIDENT ALIENS

Under present law, the estates of nonresident aliens are taxed at rates ranging from 3% to 77%, with a specific exemption of \$2,000. Section 8 of the bill, by raising the specific exemption and lowering tax rates, reduces the estate tax rates to between 0% and 40% of present levels, thereby taxing nonresident aliens at about the same rates as U.S. citizens who claim a marital deduction. We feel the bill should go further and completely eliminate estate taxes on nonresident aliens. This would provide a much greater stimulus to foreign investment in the U.S. than a rate reduction, and be a much greater help to our balance of payments. Many feel elimination of estate taxes would open up the vaults of Europe and produce a dramatic inflow of funds to the U.S. The reasons are twofold: First, many foreigners are discouraged from investing here by the existing requirement that they file estate tax returns. This deterrent would be removed if the tax were eliminated. Second, since even the proposed lower tax rates are higher than those now levied in many other countries, investment by residents of those countries would continue to be discouraged.

The rates proposed in the bill are higher than the ones originally suggested by the Administration, and stop far short of the Task Force recommendation to "eliminate U.S. estate taxes on all intangible personal property of nonresident alien decedents." Though the proposed rates would be below those levied on resident estates in the United Kingdom, Canada and Italy, they would be higher than those imposed in Switzerland, Germany, France and The Netherlands. Thus, the legislation favors the residents of some countries while discriminating against those of others.

Elimination of the estate tax on nonresident aliens would lead to a very small revenue loss. The tax has produced revenues of \$4 to \$5 million annually in recent years, and would probably yield no more than \$2 million under the proposed legislation. An additional revenue loss of \$2 million would be a small price to pay for the removal of a major deterrent to foreign investment in the U.S. The benefits of the change to our balance of payments would be ample compensation for the revenue loss.

II. RETENTION OF "SITUS RULE" ON BONDS

Under the present law, bonds issued by United States persons are subject to the estate tax only if such bonds are located in the United States. Under H.R. 13103 all debt obligations (including bonds) of a United States person, the United States, state governments or any political subdivision of a state are deemed to be property within the United States independent of their physical location, and as such, are subject to the estate tax.