INTRODUCTION

In October of 1963 the President appointed a Task Force on "Promoting Increased Foreign Investment in U.S. Corporate Securities and Increased Foreign Financing for U.S. Corporations Operating Abroad" (Fowler Committee) to stimulate investments in the United States by foreigners. The increased inflow of investment funds from abroad would have an immediately favorable effect on reducing the pressure on the U.S. balance of payments. For this reason the Council welcomed H.R. 5916 which was proposed by the Treasury Department to carry out several of the Fowler Committee recommendations. However, as stated in its Report on H.R. 13103, the House Committee on Ways and Means has modified considerably the objectives of the earlier bill. On Page 6 the Report states: "While . . . the initial bill proposed by the Treasury Department was designed primarily to stimulate investments by foreigners in the United States, your Committee considered more generally the tax provisions of present law affecting nonresident aliens and foreign corporations."

For equity reasons and because of the potential adverse effect on our balance of payments position the Council is deeply concerned over a number of provisions in the bill as presently drafted. These provisions include those relating to:

1) the taxation of foreign source income of foreign corporations under the "effectively connected" concept;

2) the inclusion of the U.S. bank deposits and U.S. debt obligations in the taxable estate of a nonresident alien;

3) the taxation of interest on bank deposits received after 1971 by nonresident aliens and foreign corporations even though not "effectively connected" with the conduct of a trade or business in the U.S.;

4) the taxation of certain evidences of indebtedness described in proposed sections 871 (a) (i) and 881 (a) (3);

5) the overly restrictive application of the provisions relating to the treatment of interest received by an "overseas operations funding subsidiary."

There follows a detailed presentation of these five areas of concern.