

laws could assist in attracting investments to the United States and making the United States the financial capital of the world.

A great many foreign countries, developed as well as underdeveloped, refrain from attempting to impose death taxes on securities issued by local companies which are owned by nonresidents, especially if the securities are transferable abroad, such as bearer securities physically located abroad. Some of these countries do not tax intangibles owned by nonresidents at all, regardless of where they are transferable or where they are physically located. A similar policy by the United States to encourage investment in this country is not out of line with the policy of other countries, but indeed only extends equal treatment to the residents of such countries. Furthermore, the small amount of U.S. estate tax collections attributable to intangibles owned by foreign persons suggests that the attempt to tax intangibles is not really effective. The removal of this deterrent to the use by foreign investors of the investment facilities offered by U.S. institutions would undoubtedly result in increased use of these facilities and have beneficial effects on the balance of payments.

The proposed extension of the estate tax to bonds and other debt instruments seems particularly inappropriate at the present time. Debt obligations of U.S. issuers are becoming more competitive in the international bond market due to the substantially increased yields that have developed recently, and this could attract new foreign investment to the United States which has previously been attracted to higher yielding foreign securities. The U.S. balance of payments could be improved significantly by such investment. While U.S. securities are already at a disadvantage because of the interest withholding tax, the imposition of the proposed estate tax would certainly make such securities unattractive to foreign investors. The top 25% rate is higher than the taxes imposed by some foreign countries on their own residents.

Because of the conflict with the U.S. balance of payments program, the estate tax should not be applied to debt instruments.

As an affirmative step toward encouraging investment in U.S. securities, the elimination or reduction of withholding taxes on interest payments, and possibly also dividends, should be considered. Precedent for the complete elimination of withholding taxes on interest and the reduction of withholding taxes on dividends may be found in many of the income tax treaties that the United States has with other countries.

CHICAGO, ILL., August 5, 1966.

Re H.R. 13103.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
United States Senate,
Washington, D.C.

DEAR SENATOR LONG: We respectfully request that this statement be incorporated in the hearings of the Finance Committee on H.R. 13103.

H.R. 13103 is "a part of the President's program to improve the U.S. balance of payments. The changes included in the proposed legislation were designed to stimulate foreign investment in the United States by modifying existing tax rules which are not consistent with sound tax policy and act as barriers to such investment." See House Report No. 1450, 89th Cong., 2d Sess.

A review of the provisions of H.R. 13103, coupled with an understanding of international financial practices, makes it clear that far from removing tax barriers to foreign investment, H.R. 13103 creates new barriers which are apt to result in an over-all worsening of the climate for foreign investment in the United States. H.R. 5916, the predecessor of H.R. 13103, while a move in the right direction, fell somewhat short of its goal.

H.R. 5916 was the Administration's original response to the published 1964 report of the President's Task Force on Promoting Increased Foreign Investment in United States Corporate Securities, which Task Force was headed by the then Under Secretary of the Treasury, Henry H. Fowler. The Task Force made its recommendations to the U.S. financial community and the U.S. Government for action to reduce the deficit in the U.S. balance of payments and defend U.S. gold reserves. The key recommendation for U.S. Government action calls for a revision of U.S. taxation of foreign investors. Recognizing that such revision is "one of the most immediate and productive ways to increase the flow of foreign capital to this country", the Task Force recommends the removal of "a number of elements in our tax structure which unnecessarily complicate and