

foreign investment and result in an adverse effect upon our balance of payments. Among these are:

1. the provision for the withholding of taxes on interest paid on bank deposits; and
2. the provision which would impose U.S. income taxes on foreign source income of foreign corporations and individuals under certain circumstances.

I will not go into the reasons for these conclusions as they undoubtedly will be advanced before your Committee by others more familiar with the problems.

The recommendation of the Task Force for elimination of all estate taxes on foreign holdings of securities was considered to be one of its most important recommendations.

The bill as passed by the House not only continues the imposition of a tax, although at a reduced rate, on securities presently subject to tax, but imposes new taxes on certain other securities and, more particularly, on U.S. bank deposits.

The report of the Committee on Ways and Means would indicate that the total revenue involved in these various estate tax provisions is in the neighborhood of 2 to 5 million dollars. If the Task Force is correct in its judgment, the adverse effect upon the balance of payments of these estate tax provisions would have far greater significance.

Although I have not had an opportunity to determine the views of the members of the Task Force with respect to the Act, I believe that they would not be inconsistent with the foregoing. I, therefore, respectfully recommend that the Act be approved with the exceptions referred to above.

Respectfully yours,

FREDERICK M. EATON.

MOBIL OIL CORP.,
NEW YORK, N.Y., August 5, 1966.

Re Foreign Investors Tax Act.

Hon. RUSSELL B. LONG,
Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: As a member of the Fowler Task Force on "Promoting Increased Foreign Investment and Increased Foreign Financing", I have been following with interest the progress of the Foreign Investors Tax Act, now pending before your Committee as H.R. 13103.

This measure was originally introduced in March 1965 as H.R. 5916. As then introduced, it would have substantially though not completely implemented the tax recommendations of the Task Force.

At the end of September 1965, H.R. 11297 was introduced as a modified version of H.R. 5916. Two modifications, a provision for the inclusion of U.S. bank deposits owned by non-resident alien decedents not engaged in trade or business in the United States in the U.S. estates of such aliens dying after the enactment of the Bill and a provision which after five years would subject interest on U.S. bank deposits of non-resident aliens or foreign corporations to U.S. income tax, work directly against the basic objective of improving U.S. Balance of Payments through increased foreign investment in the United States. These provisions are still included in the present version of the Bill, H.R. 13103; in my opinion they should be eliminated.

A third important change would have subjected foreign corporations and non-resident aliens engaged in trade or business in the United States to U.S. income tax on their world-wide income (not restricted to U.S. sources) "effectively connected" with the United States trade or business. This highly objectionable section was greatly modified and improved by the present provisions of H.R. 13103. There remain, however, certain problems under the "effectively connected" concept, including an apparently unintended upstream dividend tax on certain distributions of foreign corporations to U.S. shareholder corporations. I understand that these problems and possible amendments to meet them have been presented to you or will be developed by technical witnesses before your Committee.

The Foreign Investors Tax Act will provide a significant aid to the improvement of our national Balance of Payments. In my opinion, therefore, the meas-