

2. The general partners, who manage money in much the same way as the private agent with broad discretionary powers, have greater market leverage and may be able to obtain better brokerage services and advice since more money is available on a pooled basis.

3. Since a private investment partnership would be the receptacle for larger amounts of money than the private agent might attract, the company can afford to retain more and better professional managers.

4. A discretionary agent is necessarily limited as to the number of separate accounts he can efficiently manage. The pooling of funds in a limited partnership permits him to accommodate a greater number of accounts.

For the reasons above expressed, it seems to me that a domestic private investment partnership is more likely to attract and capture substantial sums of foreign capital than would the private agent with discretionary authority. Such private investment partnerships have proven popular and successful in the United States in the past fifteen years. I have been told that their total assets now approximate \$250,000,000. Under current tax law, such private investment partnerships have not been able to attract foreign capital since a non-resident alien who becomes a limited partner therein would be exposed to United States tax on his allocable share of the capital gains on grounds that the trade or business of the partnership would be attributed to him. Failure to attract foreign capital is especially unfortunate since it is my understanding that foreigners are very interested in investing in private investment partnerships and would invest substantial sums if the tax laws were more accommodating.

In my opinion, there exists no reason to continue to insist that a non-resident limited partner in a private investment company is considered to be carrying on a trade or business if a non-resident alien is not considered to be engaged in the carrying on of a trade or business by the effecting of securities transactions through a domestic agent with broad discretionary powers. As indicated above, the management of money by a private investment partnership and by a private agent with discretionary power is essentially similar in nature and, if it is stated Congressional design to encourage foreign capital by liberalizing the law with respect to the private agent with discretionary power, such liberalization logically should extend to the limited partnership situation in view of the fact that the private investment partnership route is, as a practical matter, the most attractive investment vehicle for substantial sums of foreign capital.

If you agree with the above recommendation, I would respectfully suggest that section 2(d) (2) of the Foreign Investors Tax Act of 1966 could be amended so as to solve the problem which I have raised by use of the term "person"—i.e., an individual, a trust, estate, partnership, association, company or corporation (I.R.C. § 770(a) (1))—in place of the term "taxpayer." Alternatively, I would suggest that the section of the Act could be amended by adding the following sentence as clause (iii) in proposed section 864(b) (2) (A) :

(iii) Except in the case of a partnership which is a dealer in stocks or securities, in the case of a limited partner, trading in stocks or securities for the partnership's own account by the partnership or through a resident broker, commission agent, custodian or other agent, and whether or not any such agent has discretionary authority to make decisions in effecting the transaction.

Very truly yours,

THOMAS N. TARLEAU.

KAISER ALUMINUM & CHEMICAL CORP.,
Washington, D.C., August 8, 1966.

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

DEAR MR. CHAIRMAN: We wish to submit for consideration a technical amendment to HR 13103, the Foreign Investors Tax Act of 1966, that is now pending before your Committee. As you know, this Act deals comprehensively with certain income and other tax aspects of foreign taxpayers, including foreign corporations in which United States investors may have a substantial interest.

Direct investment in foreign subsidiaries (that is, investment in debt obligations or stock of foreign corporations in which the U.S. parent has a voting stock interest of 10% or more) is exempt from interest equalization tax if the parent U.S. company makes the investment with no present intent to sell the security or other evidence of indebtedness. In order to provide flexibility in the manner by