INVESTMENT COMPANY INSTITUTE

MEMO# 22026

December 10, 2007

ICI Letters Urging Flow-through Legislation Enactment in 2007

[22026]

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TO: BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 56-07
BROKER/DEALER ADVISORY COMMITTEE No. 76-07
FEDERAL LEGISLATION MEMBERS No. 14-07
OPERATIONS MEMBERS No. 29-07
SMALL FUNDS MEMBERS No. 111-07
TAX MEMBERS No. 55-07
TRANSFER AGENT ADVISORY COMMITTEE No. 89-07 RE: ICI LETTERS URGING FLOW-THROUGH LEGISLATION ENACTMENT IN 2007

Institute President Paul Schott Stevens sent the attached letters to Congressional leaders of the Senate Finance and House Ways and Means Committees urging enactment this year of legislation making permanent the "flow-through" provisions of Code section 871(k). The flow-through provisions permit certain U.S. mutual fund distributions of interest income and short-term gains to retain their character as exempt from U.S. withholding tax when paid to foreign shareholders. This legislation was enacted in 2004 to provide foreign investors with the same withholding tax exemption they would receive by investing directly or in foreign funds.

Absent a legislative extension, the flow-through provisions will expire after 2007. The Institute's letter emphasizes that expiration of the flow-through provisions will cause irreparable harm that cannot be remedied by enacting retroactive legislation in 2008. Specifically, foreign investors seeking to minimize their U.S. withholding liability will not invest in U.S. mutual funds until after legislation is enacted. Those foreign investors already invested in U.S. mutual funds will have a significant U.S. tax law incentive to leave those funds before 2008; there is no guarantee that these investors will return. The letter urges December 2007 enactment of permanence legislation to avoid this financial exodus, which may be many billions of dollars.

Lisa Robinson
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Attachment
