

**MEMO# 3137**

September 27, 1991

## **BILL INTRODUCED TO ENHANCE INTERNATIONAL COMPETITIVENESS OF U.S. MUTUAL FUNDS**

September 27, 1991 TO: BOARD OF GOVERNORS NO. 77-91 RE: BILL INTRODUCED TO  
ENHANCE INTERNATIONAL COMPETITIVENESS OF U.S. MUTUAL FUNDS

I am pleased to inform you that Senator Max Baucus, Chairman of the Senate Finance Subcommittee on International Trade, has introduced S. 1748, the "International Competitiveness Act of 1991", legislation designed to enhance the international competitiveness of U.S. mutual funds. Attached is Senator Baucus' Record statement upon introduction of the bill, which includes the bill's text and a description of its provisions. As you know, current provisions of U.S. tax law create substantial barriers to the sale of U.S. mutual funds abroad. These barriers provide tax incentives for foreign investors to prefer foreign funds over U.S. funds. S. 1748 would remove the competitive tax disadvantages currently faced by U.S. funds selling abroad by modifying the current withholding and distribution requirements applicable to foreign investors in U.S. funds. In particular, S. 1748 would permit U.S. funds to flow through to their foreign shareholders the character of interest income and short-term capital gains, which would eliminate these distributions from U.S. withholding tax. In addition, the bill would permit creation of a special corporation called an IRIC or International Regulated Investment Company, which could invest only in the shares of a single U.S. mutual fund and could be sold only to foreign investors. Through the use of the IRIC, which would not be required to distribute income annually, U.S. funds could compete more effectively with foreign funds which are permitted to "build-up" or accumulate their income and gains. Foreign investors would be exempt from U.S. estate tax on their IRIC shares. In addition, a proportionate exemption would apply to a foreigner's investment in a U.S. bond fund. The Institute will keep you informed of developments regarding this important legislation. - 2 - I am personally gratified to have been able to see the introduction of this long-needed proposal as my last legislative endeavor. David Silver Attachment