

**MEMO# 2943**

July 23, 1991

## **INSTITUTE TESTIFIES ON INTERNATIONAL COMPETITIVENESS**

July 23, 1991 TO: FEDERAL LEGISLATION MEMBERS NO. 9-91 FEDERAL LEGISLATION  
COMMITTEE NO. 10-91 RE: INSTITUTE TESTIFIES ON INTERNATIONAL COMPETITIVENESS

On July 17, the Institute testified before the House Ways and Means Committee on factors affecting the ability of U.S. mutual funds to compete in the international marketplace. In its testimony, the Institute told the Committee that a major barrier to the sale of U.S. funds abroad is U.S. tax law, which puts U.S. funds at a significant competitive disadvantage when a foreign investor decides whether to invest in a U.S. fund or a foreign fund. To remove the most serious competitive barriers, the Institute recommended three changes to the U.S. tax treatment of foreign investors. Specifically, the Institute proposed that U.S. funds be permitted to flow through to their foreign shareholders interest income and short-term capital gains. This would enable U.S. funds to distribute interest income and short-term capital gains to foreign investors free from withholding to the same extent currently permitted for foreign funds. In addition, the Institute proposed the creation of a special new corporation called an International Regulated Investment Company (IRIC). The IRIC would be a taxable corporation which would invest only in shares of a single U.S. mutual fund and would be sold only to foreign investors. The IRIC would enable U.S. funds to compete more effectively with foreign funds which are permitted to "build-up" or accumulate their income and capital gains. A copy of the Institute's testimony is attached. Please call should you wish further information. We will keep you informed of further developments. - 2 - This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery System, under Legislative Affairs, Washington Update. Julie Domenick Vice-President Legislative Affairs

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