

**MEMO# 2946**

July 18, 1991

## **INSTITUTE TESTIMONY BEFORE WAYS AND MEANS COMMITTEE ON INTERNATIONAL COMPETITIVENESS**

July 18, 1991 TO: BOARD OF GOVERNORS NO. 53-91 TAX MEMBERS NO. 28-91  
INTERNATIONAL MEMBERS NO. 3-91 ACCOUNTING/TREASURERS MEMBERS NO. 17-91 RE:  
INSTITUTE TESTIMONY BEFORE WAYS AND MEANS COMMITTEE ON INTERNATIONAL  
COMPETITIVENESS \_\_\_\_\_ The Institute  
testified yesterday before the House Ways and Means Committee on "New Economic  
Challenges: International Competitiveness and the U.S. Mutual Fund Industry." Attached are  
both the oral and written testimony. The testimony notes that U.S. mutual funds are an  
ideal vehicle for enhancing economic growth since funds can attract foreign investment and  
thereby lower the cost of capital without leading to foreign control of domestic business.  
However, despite having what SEC Chairman Breeden has described as "the best products  
in the world in that area," the foreign sales of U.S. funds have been nominal. The two major  
barriers to the sale of U.S. funds abroad, the testimony observes, are foreign securities laws  
and U.S. tax laws. The testimony notes that the foreign securities law barriers can be  
eliminated through reciprocal sales agreements, such as the one currently being negotiated  
between the U.S. and the European Community. U.S. tax law, which is the second barrier  
and the focus of the testimony, 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 this barrier, the Institute proposes three changes to the U.S. tax treatment of  
foreign investors in U.S. funds. Specifically, the Institute proposes that U.S. funds be  
permitted to flow through to their foreign shareholders the character of interest income and  
short-term capital gains. By preserving the character of these types of income, foreign  
investors would receive fund distributions attributable to interest income and short-term  
capital gains free from U.S. withholding tax to the same extent currently permitted for  
foreign funds investing in the U.S. Finally, the Institute proposes the 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 would be sold only to foreign  
investors. Through the use of the IRIC, which would not be compelled to distribute income  
yearly, U.S. funds could compete more effectively with foreign funds which are permitted to  
"build-up" or accumulate their income and gains. We will keep you informed of  
developments. Keith D. Lawson Associate Counsel - Tax Attachments

---

**Source URL:** <https://icinew-stage.ici.org/memo-2946>

Copyright © by the Investment Company Institute. All rights reserved. Information may be

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.